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Income Commission

des prix et des revenus

January 29, 1971

General publications

[6-23] PRIMARY NICKEL PRICES

Prices and Incomes Commission

John H. Young
Chairman

Bertram G. Barrow
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2019-03-28



Canada

Prices and incomes commission

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FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. There was broad agreement that, if called upon to do so, business firms generally would apply criteria arrived at during the conference when formulating their pricing policies in 1970.

The closing statement of the conference recognized that criteria intended to be applied to the prices of goods or services in the domestic market could not readily be applied to the pricing of goods sold mainly in export markets. It stated that:

"...domestic price criteria should not be applied to goods sold mainly in export markets. The Commission will keep the position of export industries under review and if it finds that developments in some of these industries are impairing the general price restraint program, it will seek appropriate solutions to the problems."

Approximately 95 per cent of nickel produced in Canada is exported. This review, therefore, does not apply the domestic criteria to price changes but considers whether price revisions for nickel in 1970 have impaired the general price restraint program.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

PRIMARY NICKEL PRICES

INTRODUCTION

The International Nickel Co. of Canada Ltd. (Inco) announced an increase of five cents per pound in United States dollar prices of primary nickel for export on Oct. 14, 1970. The price of nickel in Canada is generally the United States dollar price adjusted for the exchange rate. For electrolytic nickel, this price was \$1.375 (Canadian) per pound during the first five months of 1970, from June 1 to Oct. 14, it averaged \$1.315 (Canadian) and is currently about \$1.365 (Canadian) per pound.

Since nickel prices have been a subject of controversy in recent years, the Commission announced that it would undertake this review. Because more than 95 per cent of Canadian nickel is exported, the principal question to be answered is whether changes in the price of nickel impaired the domestic price restraint program. The Commission has also examined some of the background factors which have influenced nickel prices in recent years and has given some consideration to the relationship between nickel prices and inflation in Canada.

Nickel producers in Canada and other non-Communist countries generally follow Inco's lead in pricing primary nickel products. The Commission has, therefore, also included information about the two other major Canadian producers, Falconbridge Nickel Mines Ltd. and Sherritt Gordon Mines Ltd., in this review.

PRODUCTION AND CONSUMPTION

Occurrence of Nickel. Nickel is a hard white metal obtained by processing ores. Nickel-bearing ores occur in two forms. In Canada, as in other northern and southern parts of the world, nickel is found in sulphide ores often in conjunction with copper. Sulphide ores are amenable to conventional concentrating and processing techniques and most world nickel production has occurred from this type of ore. The world's largest known deposits of nickel-bearing sulphide ore occur in the Sudbury basin of Ontario.

The greatest portion of known world nickel reserves, however, occur in the form of lateritic ores found in the tropics. This ore is formed by weathering action which over many years decomposes rock and eventually concentrates its soluble mineral content. Lateritic ores are low-grade surface deposits in a soil-like form and usually do not contain copper or precious metals as do sulphide ores. Conventional concentrating and processing techniques are not applicable to lateritic ores and this has hindered their exploitation.

Canada and Nickel. Nickel production and consumption data for Canada and the world are shown on Table I. Canada is the world's principal supplier of nickel, currently accounting for some 50 per cent of total world production and 65 per cent of production in non-Communist countries. It is, however, a minor user of nickel, consuming less than five per cent of domestic production. Major consumers of nickel are the United States, Europe and Japan.

TABLE 1
CANADA IN THE WORLD NICKEL MARKET 1960-1969

(Thousands of Pounds)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
PRODUCTION										
Canada	429,012	465,982	464,484	439,882	456,992	534,616	477,196	493,908	527,086	424,828
United States	25,060	22,352	22,434	22,864	24,370	27,020	26,474	29,230	30,308	30,250
Finland	4,990	4,754	4,620	6,462	7,064	6,590	6,508	6,600	7,110	7,994
New Caledonia	86,650	97,200	64,800	75,840	104,470	106,108	121,594	135,162	176,076	199,398
Rep. of S. Africa	6,400	5,800	5,400	5,400	5,400	6,600	12,000	12,600	13,000	14,000
Other	-	-	13,818	15,324	27,210	35,206	11,444	23,038	51,420	63,530
Free World Total (Est.)	552,112	596,088	575,556	565,772	625,506	716,140	655,216	700,538	805,000	740,000
Cuba	25,094	32,640	32,444	32,200	32,400	40,400	35,000	52,000	75,000	80,000
U.S.S.R.	116,000	154,000	180,000	150,000	160,000	180,000	190,000	210,000	210,000	240,000
World Total (Est.)	693,206	782,728	788,000	747,972	817,906	936,540	880,216	962,538	1,090,000	1,060,000

CONSUMPTION

Canada	9,722	9,870	10,644	11,738	13,798	17,848	17,216	17,534	19,328	-
Free World Total (Est.)	472,692	484,476	467,300	509,848	641,182	704,250	807,612	812,325	815,621	4
Soviet Bloc	165,787	209,440	209,440	220,462	220,462	220,462	220,462	198,415	198,415	-
World Total (Est.)	638,480	693,916	676,740	730,310	861,644	924,712	1,028,074	1,010,740	1,014,036	-

PRODUCTION-CONSUMPTION RATIOS

Canadian Prod. as o/o World	61.9	59.5	58.9	58.8	55.9	57.1	54.2	51.3	48.4	40.1
Canadian Cons. as o/o World	1.5	1.4	1.6	1.6	1.6	1.9	1.7	1.7	1.9	
Canadian Cons. as o/o Prod.	2.3	2.1	2.3	2.7	3.0	3.3	3.6	3.6	3.7	

Sources - Canadian Minerals Yearbook. Mineral Resources Division, Dept. of Energy Mines and Resources, Ottawa.
Nickel-Canada and the World. Mineral Resources Division, Dept. of Energy Mines and Resources, Ottawa.
Statistiques. Minerais et Métaux Société Anonyme
Yearbook of the American Bureau of Metal Statistics.

Canadian Nickel Producers. There are seven nickel producers in Canada. Three of these producers operate integrated mine-mill-smelter-refinery complexes based primarily on their own ore production and also treat ores and some secondary material from three smaller producers.

1. Consolidated Canadian Faraday Ltd. produces concentrate from a mine at Gordon Lake, Ont., which it sells to Inco.
2. Dumbarton Mines Ltd. produces ore from a mine at Bird River, Man., which is concentrated at the Consolidated Canadian Faraday Ltd. mill and sold to Inco.
3. Falconbridge Nickel Mines Ltd. operates eight mines together with milling and smelting facilities in the Sudbury area. Nickel-Copper matte produced in the smelter is shipped to Norway for processing in the company's refinery at Kristiansand. Falconbridge recently announced plans to build a refinery at Becancour, Que., which will begin operating in 1974.

Falconbridge has an annual capacity of some 100 million pounds. The company plans to triple this output over the next five years at a capital cost of \$350 million.

Included in this expansion is the development by a subsidiary company of a nickel deposit in the Dominican Republic which will produce 64 million pounds annually beginning in 1972.

McIntyre Porcupine Mines Ltd. is the largest single shareholder of Falconbridge. McIntyre Porcupine's major shareholder is the Superior Oil group of Houston, Tex.

4. Giant Mascot Mines Ltd. produces concentrate from a mine near Hope, B.C., which it exports to Japan.
5. The International Nickel Co. of Canada Ltd. currently operates 12 mines together with milling and smelting facilities in the Sudbury area and two mines with milling, smelting and refining facilities at Thompson, Man.

The company has refineries at Port Colborne, Ont., and Clydach, Wales, and rolling mills at Huntingdon, W. Va., Burrough, Ky., and at Hereford, England.

Inco is the world's largest nickel producer with current annual capacity of some 500 million pounds. The company is in the midst of an expansion program in Canada which will increase capacity from 460 million pounds in 1968 to 620 million pounds in 1973 at a capital cost of some \$1.1 billion.

Inco is active throughout the world and is examining potential new developments in Guatemala, New Caledonia, Australia and Indonesia.

Inco is a widely held public company with most shareholders resident in the United States, Canada and the United Kingdom.

6. Renzy Mines Ltd. produces concentrate from a mine near Maniwaki, Que., which it sells to Falconbridge.
7. Sherritt Gordon Mines Ltd. operates a mine at Lynn Lake, Man., and a refinery at Fort

Saskatchewan, Alta., together with a rolling mill and mint. The refinery has an annual production capacity of 30 million pounds. About half this amount is produced from the company's own concentrate and the balance comes from concentrate, matte and scrap which is refined for others on a toll basis.

While Sherritt Gordon is a small nickel producer, it is a leader in nickel-processing technology. The refinery is a hydro-metallurgical process which avoids smelting and has a very high metal recovery rate. The process when modified is applicable to lateritic ores and some of the new nickel production expected from these ores will use the Sherritt process.

The major shareholder of Sherritt Gordon is Newmont Mining Corp. of the United States, which has some 38 per cent of the stock outstanding.

The nickel output of Falconbridge, Inco and Sherritt Gordon accounts for some 65 per cent of output in the non-Communist world. Société Le Nickel, a French firm with a current capacity of some 90 million pounds annually from operations in New Caledonia, is the major producer outside Canada.

Consumption. The following table shows the uses of nickel in Canada and in non-Communist countries.

TABLE 2

NICKEL CONSUMPTION BY END USE

	Canada (1970 Est.)	Non-Communist Countries (1969 Est.)
Stainless Steel	56%	39%
High-Nickel Alloys	-	16
Nickel Plating	15	14
Constructional Alloy Steels	11	11
Iron & Steel Castings	12	9
Copper-Base Alloys	3	3
All Other Uses	3	8

Source: The International Nickel Co. of Canada Ltd.

The main uses of stainless steel are as a building material, in construction of rapid-transit and railway cars, in the manufacture of food-handling equipment and in the production of chemical-fertilizer manufacturing and handling equipment. Most nickel plating is associated with the automotive industry, particularly for automobile bumpers. Machinery where resistance to heat and corrosion is essential, such as gas turbine engines, nuclear reactors, chemical, petroleum and processing equipment, is the major user of high-nickel alloys. Copper-base nickel alloys have numerous uses. The fastest growing use is in applications where contact with sea water is a factor, such as in shipboard-piping and desalination plants. Coinage is a major user of nickel. Industrial end uses of nickel in Canada are shown in Table 3.

TABLE 3

END USES OF NICKEL IN CANADA

Power	21.4%	Coinage	8.3%
Automotive	17.1	Chemical, Petroleum and Petrochemical	7.4
Consumer Products	15.0	Architecture	2.9
Pulp, Paper and Process Industries	13.2	Transportation	2.9
Mining	10.3	Marine	1.5

Source: The International Nickel Co. of Canada, Ltd.

Nickel Marketing. The long-term average annual growth rate for nickel consumption is estimated at six to seven per cent. While there have been periods of excess nickel supply, such as during the general economic slow-down in 1958, production has generally been pressed to accommodate demand. Nickel demand grew unusually rapidly in the early 1960s with world consumption increasing in excess of 15 per cent annually from 1962-66. Production increases, combined with producers' inventory depletion, accommodated this demand increase until 1966. Strikes in 1966 accentuated the supply-demand imbalance which continued through 1970. A four-month strike at Inco and a three-month strike at Falconbridge in 1969 caused the most critical nickel shortage experienced since the Korean War. The supply position has improved considerably throughout 1970 and at the same time demand has weakened as most major western countries pursued deflationary economic policies. It thus appears that the nickel industry entered 1971 in an approximate supply-demand balance.

During periods of supply shortage major producers place their customers on a quota system whereby current nickel allocations are based on past purchases. In Canada the Government assumed some responsibility for the allocation of nickel to domestic consumers experiencing shortages under the quota system during the years 1966 to 1969. Nickel was controlled under the Export and Import Permits Act in 1969 and producers were not allowed to export unless legitimate needs of Canadian consumers were met. Quantitative controls were removed in November, 1970, as the nickel market became more balanced but nickel remains on the export-control list. Producer-determined quotas remain in effect for both domestic and export customers but at the present time no consumers are experiencing serious shortages.

A growing market and rising prices are combining to induce expanded nickel production. Some sources predict a large excess supply of nickel in the mid-1970s while others forecast that, at best, supply will keep pace with demand.

Most industry forecasts indicate that nickel demand in the non-Communist world will continue to increase at a long-run rate of six to eight per cent annually, with a possible annual variation of plus or minus 15 per cent resulting in demand estimates ranging from 1.3 to 1.9 billion pounds in 1975. Production forecasts range from 1.6 to 2.3 billion pounds in 1975, the latter assuming that all production currently being considered comes into being. The industry forecasts appear to indicate that there may be some excess supply in the mid-1970s but that excess demand conditions are likely to re-occur as the decade progresses.

OPERATING RESULTS OF MAJOR PRODUCERS

Table 4 shows financial operating results of the three major Canadian nickel producers. Data are shown for the years 1960-69 together with a comparison between third-quarter results in 1968 and 1970.

Both Falconbridge and Inco have experienced steady growth throughout the 1960s with nickel deliveries increasing some 50 per cent. While earnings kept pace with sales and asset growth in the first half of the decade, they did not do so after 1965.

Falconbridge, despite a three-month strike in 1969, attained record earnings in that year largely because it depleted its inventories at a time of very strong markets for nickel and copper. The need to replenish inventory, together with a sharp decline in copper prices in the last half of 1970, are expected to result in lower earnings in 1970 than in 1969.

Inco's earnings show a marked decline in relation to business growth during the last five years with return on equity falling from 18.7 per cent in 1965 to 12.3 per cent in 1969*. The steady rise in nickel prices from 77.75 cents per pound (U.S.) in 1965 to \$1.28 per pound in 1969 has been largely offset by higher costs, mostly due to increased capital and production expense associated with declining ore grades. Abnormally low profits in 1969 were influenced by a four-month strike at Inco's Sudbury operations. In the first nine months of 1970 Inco has experienced larger sales and earnings than in any past full year of operations. If this pace is maintained during the last quarter,

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*Financial data shown in Table 4 are for Inco's consolidated operations as published in annual reports. The Commission requested and obtained from Inco data relating to Canadian operations only and has used this data for its analysis.

FINANCIAL RESULTS - FALCONBRIDGE, INCO, SHERRITT GORDON

	Average <u>1960-64</u>			<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	Nine Months		<u>1969</u>	<u>1970</u>
<u>FALCONBRIDGE</u>											
Sales (\$000)	72,141	82,840	92,495	94,442	105,206	73,180	137,611	114,319			
Profit After Tax (\$000)	17,824	26,768	27,725	25,792	24,461	15,610	45,154	30,964			
- % Sales	24.7	32.3	30.0	27.3	23.3	21.3	32.8	27.1			
- % Assets	13.5	14.1	12.8	10.4	8.6		14.7				
- % Equity	15.5	15.5	14.8	13.1	11.3		18.1				
- % Equity and L.T. Debt	14.9	15.5	14.8	13.1	11.3		18.1				
- Earnings per Share (\$)	4.04	5.47	5.66	5.26	4.99	3.18	9.13	6.25			
<u>INCO (U.S. CURRENCY)</u>											
Sales	502,390	634,807	694,122	713,157	767,330	564,076	684,232	802,981			
Profit After Tax (\$000)	101,156	143,794	118,170	141,752	143,745	104,911	116,543	160,662			
- % Sales	20.1	22.7	17.0	19.9	18.7	18.6	17.0	20.0			
- % Assets	13.0	14.6	11.6	12.7	10.3		7.9				
- % Equity	16.5	18.7	14.6	16.4	15.7		12.3				
- % Equity and L.T. Debt	16.5	18.7	14.6	16.4	13.1		10.3				
- Earnings Per Share (\$)	1.38	1.94	1.59	1.90	1.93	1.41	1.56	2.16			
<u>SHERRITT GORDON</u>											
Sales	27,665	39,311	44,307	49,375	56,754	43,772	66,292	71,008			
Profit After Tax (\$000)	2,224	3,347	2,560	2,992	4,148	3,666	10,927	12,645			
- % Sales	8.0	8.5	5.8	6.1	7.3	8.4	16.5	17.8			
- % Assets	3.2	3.8	2.9	3.5	4.4		10.0				
- % Equity	4.7	7.1	5.4	6.2	8.4		19.5				
- % Equity and L.T. Debt	3.7	4.8	3.7	4.7	6.2		14.4				
- Earnings Per Share (\$)	0.20	0.29	0.23	0.26	0.37	0.32	0.96	0.51			

Source: Annual and quarterly reports of companies.

earnings will exceed \$200 million and profitability ratios will return to about the levels of the early 1960s.

Sherritt Gordon, until 1969 and 1970, has not enjoyed profits of the same relative size of Falconbridge and Inco, partly because the nature of the company's operations are somewhat different. High earnings in 1969 and 1970 are due to higher copper prices and the company's decision to sell nickel in export markets at the dealer price.

NICKEL PRICES

Pricing Structures. Most nickel is sold at a producer price which is typically the prevailing Inco price. Inco prices are f.o.b. refinery and the Port Colborne price is the most important. Falconbridge, for North American sales, returns refined nickel from Norway to warehouses at Thorold, Ont., and sells at the Port Colborne price. Sherritt Gordon has a warehouse at Niagara Falls, Ont., from which it also sells at the Port Colborne price. Société Le Nickel prices are essentially the Port Colborne price less cost, insurance and freight at a French port.

Nickel is generally priced in United States dollars, primarily because the United States is the largest single market and it is a convenient currency to use in world trade. Nickel is sold in various forms but all producer prices tend to be related to the price for electrolytic grade.

There is also a 'premium' or 'dealer' price for nickel which tends to reflect the marginal price consumers are willing to pay. When consumers' requirements are being met at the producer price, the premium price tends to fall to this level. When nickel is in short supply, however, the premium price may be bid far above the producer price. During the nickel shortage of 1969, for instance, the premium price rose as high as \$7.50 (U.S.) per pound while the producer price was \$1.03 (U.S.) until November, 1969, when it rose to \$1.28 (U.S.).

Nickel exported by Russia, some nickel from Greece and Japan, nickel sold by the Finnish producer Outukumpu Oy, and nickel exported from Canada by Sherritt Gordon is sold at the premium price. Some of this nickel is handled by metals dealers who also obtain nickel from consumers depleting inventory and from nickel made from scrap, sludge and tailings in sufficient quantity to maintain a small dealer market with bid prices.

During the nickel shortages of the last several years, Inco has purchased Russian nickel at prices averaging 30-50 per cent over its own prices and ~~has~~ resold the nickel at cost. It is estimated that just over 25 per cent of all nickel purchases in 1970 were at a premium price compared to less than 10 per cent in 1965.

Prices for nickel-bearing scrap also fluctuate widely and are a reflection of the supply position of nickel. The equivalent price for contained nickel in stainless steel scrap in the United States rose to \$1.96 (U.S.) per pound during the 1969 shortage.

Price Trends. Table 5 shows prices for two basic nickel products over the last 15 years in United States funds and equivalent Canadian currency. The price in Canada is generally the United States dollar price adjusted for exchange variations.

Korean War requirements and United States stockpiling created a strong demand for nickel in the early 1950s and the producer price for refined nickel rose some 30 per cent between 1951 and 1956. Supply and demand conditions were in approximate balance between 1956 and 1960 and the price remained stable. In 1961 there was a 10-per-cent increase and in 1962 the relationship between the Canadian and U.S. price changed due to the devaluation of the Canadian dollar. Prices remained stable from 1962 to 1966 although demand was increasing. Substantial price increases occurred during 1966-70, averaging 11.3 per cent annually. These price increases occurred in a period of rapidly rising demand and rapidly rising production costs.

Price Changes in 1969 and 1970. Inco's pricing policy appears to be influenced by both production costs and market conditions. The record suggests, for example, that the producer price has at times been lower than market demand conditions would have supported. In other words it would seem that the company has, up to some point, been willing to forego short-term profits in the interest of longer-term profit stability.

TABLE 5

NICKEL LIST PRICES 1955-70

Inco, electrolytic, f.o.b.
 Port Colborne, Ont., and Thompson, Man.

Inco, nickel oxide sinter 75
 (Ni-Co content) Points in Ontario -
 Point of Entry to U.S.

	<u>Date of Price Change in Canada</u>	<u>Cents per Pound</u>	
		<u>United States</u>	<u>Canadian</u>
1955	unchanged	64.50	63.00
1956	December	74.00	70.00
1957	August	74.00	69.00
1958	January	74.00	71.50
	July	74.00	70.50
1959	August	74.00	70.00
	unchanged	74.00	70.00
	unchanged	74.00	70.00
	January	74.00	72.75
	June	81.25	82.50
1962	May	79.00	84.00
1963	unchanged	79.00	84.00
1964	unchanged	79.00	84.00
1965	unchanged	77.75	84.00
1966	November	85.25	92.15
1967	September	94.00	101.50
1968	December	103.00	111.25
1969	November	128.00	138.00
1970	unchanged	133.00	138.00
		75.25	81.50
		75.25	81.50
		75.25	81.50
		75.25	81.50
		81.00	87.80
		88.50	95.50
		97.50	105.25
		122.00	131.00
		127.00	131.00

Sources:

Canadian Minerals Yearbook. Mineral Resources Division, Dept. of
 Energy, Mines and Resources, Ottawa.
 Nickel-Canada and the World. Mineral Resources Division, Dept. of
 Energy, Mines and Resources, Ottawa.
 The International Nickel Co. of Canada Ltd.

The settlement of the four-month strike at its Sudbury operations in November, 1969, left Inco facing increased costs and a market which was extremely short of nickel. Inco increased prices of primary nickel in November, 1969, by 25 cents (U.S.) per pound, resulting in prices which the company expected would help restore a supply-and-demand balance in the market and improve its earnings position, which had been deteriorating for several years. Price increases in 1966, 1967 and 1968 were more than offset by rising costs. The tight market conditions prevailing in 1969 afforded the company an opportunity to increase prices by an amount that would substantially more than offset increased labor costs resulting from the 1969 wage settlement. It is estimated that the 25-cent-per-pound price increase will generate approximately 80 million dollars in profit annually after tax. Inco's current labor contract provides workers with wage increases of nine to 10 per cent annually and according to the company adds over 30 million dollars annually to wage costs. It is evident, therefore, that the price increases in 1969 and 1970 were not induced primarily by the wage increases.

At the time of the 1969 price change the rate of exchange was 92.5 cents U.S. to the Canadian dollar. The Canadian dollar was freed on June 1, 1970, and significantly appreciated in relation to the United States dollar. This development had the effect of reducing the company's Canadian dollar revenues below the levels which would have been realized at the previous exchange rate. In the Canadian market, the freeing of the dollar had the effect of reducing the cost of nickel

to consumers because producers followed the practice of charging the Canadian dollar equivalent of the United States dollar price.

On Oct. 14, 1970, the United States dollar price was increased five cents per pound to \$1.33. The effects of the five-cent-per-pound increase in the U.S. dollar price brought the cost to Canadian users back to almost the level of the Canadian posted price.

Two reasons are cited for the price adjustments in 1970. First, producers cite the exchange loss which has occurred since the advent of the flexible exchange rate and second, they say there was evidence that customers were beginning to hedge against a price change and that the change was necessary to maintain a balanced market.

Table 6 shows the reduction in Canadian dollar revenue experienced by producers per pound of nickel sold since freeing of the exchange rate.

TABLE 6

REVENUE PER POUND OF NICKEL SOLD - 1970

	<u>Canadian \$*</u>	<u>U.S. \$</u>
Jan. - May	1.380	1.28
June	1.329	1.28
July	1.321	1.28
Aug.	1.307	1.28
Sept.	1.300	1.28

*Based on average monthly noon
spot rates

As the Canadian dollar appreciated, the revenue of nickel producers declined by some eight cents per pound (Canadian) although the price in U.S. currency remained constant. As domestic customers are charged the posted Canadian price and then rebated the differential caused by exchange variations, the average cost of nickel in Canada from June 1, 1970, to Oct. 14, 1970, is estimated to have been \$1.315 (Canadian) per pound, although the posted price was \$1.38 (Canadian) per pound.

The expenses and capital outlays of Canadian producers are mainly in Canadian currency while sales revenue is predominantly in U.S. currency as 95 per cent of nickel sales are in export markets. It is estimated that in 1970, average monthly nickel exports will be 48.5 million pounds. Based on data in Table 6, the reduction in Canadian dollar revenue experienced by domestic producers from June through mid-October amounted to approximately \$15.2 million.

Nickel consumers were aware that Canadian nickel producers were being adversely affected by changes in the Canadian dollar exchange rate. They were, therefore, in a position to speculate that price adjustments would occur and to increase purchases before such adjustments were made. As producers have control over nickel deliveries and are well acquainted with most consumer's needs they could likely control such a situation. It would, however, have worsened allocation problems and it is understandable that producers wished to avoid this situation. On balance, though, it would seem that the financial losses resulting from the floating exchange rate were a much stronger inducement to price revisions than were possible speculative problems.

Impact on Domestic Price Restraint Program.

The direct impact of the 1970 nickel price changes on domestic manufacturing costs and selling prices will be relatively minor. The average cost to Canadian customers for electrolytic nickel during the first five months of 1970 was about \$1.375 (Canadian) per pound; from June 1 to Oct. 14 the price averaged \$1.315 (Canadian) per pound and it is currently \$1.365 (Canadian) per pound.

Nickel consumption in Canada is currently some 2.3 million pounds monthly. Canadian consumers experienced a cost saving averaging \$138,000 monthly due to changes in the exchange rate between July 1, 1970, and Oct. 14, 1970. The effect of the Oct. 14, 1970, price change is to reduce this saving by some \$104,000 monthly. A price change of this magnitude has limited effects.

Because nickel is used as the major component of very few items, the effects of a five-cent-per-pound price increase are negligible. Cost increases on a representative group of items range from a low of about $1/400^{\text{th}}$ of one per cent on the selling price of freezers to a high of 1.2 per cent on the selling price for heating element strip. The largest single use of nickel is in the alloying of stainless steel. However, unlike steel, copper and aluminum, nickel is used only in very small quantities to impart special qualities to a product and is not a major cost component.

CONCLUSION

The price of nickel was increased by 25 cents per pound in November, 1969, prior to the start

of the price restraint program agreed to in February, 1970, at the National Conference on Price Stability. Though this price increase occurred before the start of the restraint program, it is an essential part of the background to this review of the five-cent-per-pound price increase made in October, 1970.

Increases in nickel prices did not by themselves increase domestic manufacturing costs and selling prices sufficiently to jeopardize directly the domestic price restraint program. Nickel price increases of the last two years do, however, provide a good illustration of the dilemma which price developments in export industries can pose for any program aimed at restraining domestic cost and price increases in a country like Canada.

Because of the strength of demand for nickel on the export market, Inco was able to follow pricing policies which resulted in a substantially greater increase in its revenues than in its costs in 1970. Firms primarily serving the domestic market, on the other hand, were required to ensure that price increases were clearly less than the amount needed to cover their increases in costs in 1970. Wage and salary earners as well as professional and other groups in Canada were also being urged to exercise restraint in their claims to income increases.

The difficulty of gaining public acceptance for a program of domestic price and income restraint is bound to be increased by the exemption of any important segment of the community from the need to conform with its requirements. On the other hand, it is difficult to see how the

national interest would be served by requiring export firms to forego potential revenue by charging lower prices to their customers in other countries than they would charge on the basis of normal commercial considerations.

Exports of Canadian merchandise are equal to 19 per cent of gross national product. It has always been Canadian policy to encourage the expansion of export trade and to welcome greater revenues resulting from profitable sales abroad.

Questions of equity are bound to arise, however, in cases where substantial price and profit increases occur in export industries at a time when others in the community, including the employees of these same export industries, are subject to domestic price and income restraints.

Since few export firms were able to realize profit increases in 1970 comparable to those of Inco, the pressure on the domestic price and income restraint program from this source was much less intense than might have been the case. But for a country like Canada, any program of domestic cost and price restraint is bound to be vulnerable unless some practical way can be found through which export firms can make their contribution to the success of the program as a whole.
